Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

COMMENTS OF THE NEBRASKA RURAL INDEPENDENT COMPANIES IN RESPONSE TO WIRELINE COMPETITION BUREAU REQUEST FOR COMMENT ON MODEL DESIGN AND DATA INPUTS FOR PHASE II OF THE CONNECT AMERICA FUND

Dated: July 9, 2012

The Nebraska Rural Independent Companies
Paul M. Schudel (NE Bar No. 13723)
James A. Overcash (NE Bar No. 18627)
Woods & Aitken LLP
301 South 13th Street, Suite 500
Lincoln, NE68508
(402) 437-8500
Their Attorneys

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SUMMARY OF COMMENTS

The Nebraska Rural Independent Companies ("NRIC") respectfully submit that the use of a forward-looking cost model that is designed to determine CAF Phase II support for areas served by price cap carriers must not be applied to RoR carriers, particularly as it relates to identifying areas classified as "extremely high cost" and subject to the Remote Areas Fund. The primary objective for use of a cost model as it relates to this *Notice* should be to extend broadband to the currently widespread unserved locations found in areas that are served by price cap carriers.

In contrast to the budget limitations and support distribution of CAF Phase II to price cap carriers, the distribution of the $2 billion budgeted federal USF for RoR carriers is being limited by the Commission in two ways – by use of regression-based caps, and potentially by imposing limits on support for "extremely high cost areas". NRIC is not aware of a policy basis for the selection of the cost threshold for defining an area as "extremely high cost" other than to meet the price cap carriers' budgeted amount for annual support.

Applying such CAF-like rules to RoR carrier service areas will likely harm service to customers located within the "extremely high cost" portions of those service areas. In these areas, RoR carriers generally have previously invested – and many customers are currently being served – with both voice and broadband. Thus, in areas served by RoR carriers, there is a substantial risk of eliminating sufficient support for existing services.

As NRIC research has indicated, areas served by RoR carriers are vastly more rural than the areas served by price cap carriers. Therefore, from a statistical standpoint and in light of the desired policy outcomes, the Commission can not apply the same model that is adopted for price cap carriers to RoR carriers. Averaging errors within any cost model will create more serious

risks in rural areas. Further, there are likely to be significant differences in the network design between price cap carriers and RoR carriers, and additional assumptions within a cost model used for price cap carriers are likely incorrect for use by RoR carriers.

The Bureau should also exercise extreme caution in the treatment of certain costs within the cost model. The manner in which certain costs are treated could have a significant effect on the cost-per-line calculation, which would result in an increase of the number of subscribers in rural areas that are classified as being in "extremely high cost areas." Specifically, the treatment of terminal values and the allocation of shared costs could have the most significant impacts. Caution is therefore urged in order to prevent unjustly classifying many rural areas as "extremely high cost" which would deprive the consumers living and working in those areas from obtaining world class broadband.

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The Nebraska Rural Independent Companies ("NRIC"),[1] which provide telecommunications and broadband access services to some of the most-rural, sparsely populated parts of America, appreciate the opportunity to submit these Comments in response to the Wireline Competition Bureau's (the "Bureau") request for comment on model design and data inputs for Phase II of the Connect America Fund ("CAF").[2] The number of matters that are presented for comment in the *Notice* precludes NRIC from commenting on all issues. However, NRIC reserves the right to file reply comments on any matter raised in the comments on the *Notice*.

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[1] The Companies, each of which is a Local Exchange Carrier ("LEC"), submitting these Comments are: Arlington Telephone Company, The Blair Telephone Company, Cambridge Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hartington Telecommunications Co., Inc., Hershey Cooperative Telephone Co., K. & M. Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company, Rock County Telephone Company, Stanton Telecom Inc., and Three River Telco.

[2] *See,* Wireline Competition Bureau Request for Comment on Model Design and Data Inputs for Phase II of the Connect America Fund, WC Docket 10-90, 05-337 released June 8, 2012 (the "*Notice*").

I. Any Price Cap Carrier USF Model Should Not Be Applied To Rate-of-Return Companies As It Would Likely Harm Universal Service In Rural Areas.

NRIC recognizes the Bureau has stated in the *Notice* that it is seeking comment on forward-looking cost model design, data inputs and other assumptions for price cap carriers.[3] Thus, based upon the express wording of the *Notice,* it would be reasonable to expect that the scope of the *Notice* and the application of any model discussed therein would be limited to determination of support for areas served by *price cap carriers* for purposes of distributing up to $1.8 billion of Connect America Fund support annually for five years to create and sustain voice and broadband availability in high-cost areas served by *price cap carriers.* NRIC urges the Bureau to unequivocally declare that the application of any such model is limited to areas served by price cap carriers and that such model would not be applied to areas served by rate-of-return ("RoR") carriers. These Comments focus on the inappropriateness of applying any price cap model to RoR areas both as a policy matter and from a technical standpoint based on model design.

Despite the stated focus of the *Notice* being on price cap carriers, NRIC is concerned that the model that the Commission now adopts to target support within price cap areas may later be utilized in areas served by RoR carriers, particularly as it relates to the identification of extremely high cost areas subject to the Remote Areas Fund ("RAF").[4] For various reasons, this course of action could be tempting for the Commission. NRIC understands that the price cap cost model currently under consideration is similar to the CostQuest Broadband Analysis Tool, or "CQBAT," previously submitted by the ABC Plan proponents. CQBAT estimates costs for

[3] *See Notice,* ¶ 1.

[4] *See Notice*, FN 43.

all areas of the nation, not just price cap areas. In addition, the Commission has already determined to limit both RoR and price cap carriers' federal USF to prescribed budgets.

However, a model such as CQBAT purports to address a different policy objective than the objectives identified by the Commission for RoR areas. In price cap areas, the primary objective is to extend broadband to the widespread unserved locations to be found in those price cap areas. The Commission said it is utilizing the model to "estimate support necessary to serve areas where costs are above a specified benchmark, but below a second 'extremely high-cost' benchmark."[5] Each price cap carrier then will be offered this model-derived support amount for five years in exchange for a commitment to serve all locations in its service territory in a state that fall within the high-cost range and are not served by an unsubsidized competitor.[6] In these price cap areas, there is very little risk that a model error will cause an area currently receiving voice or broadband service to lose that service.

In contrast, distribution of the $2 billion budgeted federal USF for RoR carriers is being limited by the Commission in two ways – by use of regression-based caps, and potentially by imposing limits on support for extremely high cost areas.

A. The basis for designating extremely high cost areas has not been adequately defined.

The *Notice* discusses the Commission's decision to establish the RAF to serve extremely high cost areas. The ABC Plan proponents proposed a benchmark of $80 per loop per month.[7] The ABC Plan proponents previously recommended an alternative technology benchmark of $256 per month based on the Plan proponents' cost model, CQBAT, which would eliminate

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[5] *Id.* ¶ 2.

[6] *Id.*

[7] *See Notice,* ¶ 65.

support for areas requiring a support level of more than $176 per location per month ($256 less the $80 cost benchmark).[8]

So far as NRIC is aware, there was no policy basis for the selection of the cost threshold for defining an area as "extremely high cost" and therefore ineligible for standard forms of universal service support. It appears the Commission intends to simply pick a number to make the budget work,[9] as the proponents of the ABC Plan did earlier.[10]

This "very high cost" exclusion will deprive certain citizens of the opportunity to have the life changing broadband technology that Chairman Genachowski promotes and in some rural areas to deprive those citizens of even having access to reasonable voice service. If the Commission wishes to establish such a threshold, there should be a clearly articulated policy basis that is driven by more than a need to meet a contrived budget.

B. The CAF rules will likely harm service to extremely high cost areas within rural service areas.

There is an additional problem with the Commission's announced approach in "extremely high cost" areas. If a cost model is used to define these portions of RoR service areas, then substantial portions of those service areas are likely to become ineligible for normal support mechanisms other than the RAF. Nevertheless, these extremely high cost areas are

[8] *See Connect America Fund, WC Docket No. 10-90, et al., Report and Order and Further Notice of Proposed Rulemaking, November 18, 2011,* ¶ 168.

[9] *See Notice,* ¶ 68.

[10] *See* America's Broadband Connectivity Plan, Attachment 1, Framework of the Proposal, July 29, 2011, at p. 5. The Framework states that "The cost model analysis also demonstrates that $2.2 billion per year is not sufficient to support the provision of broadband to all high-cost service locations in the territories served by price cap LECs. With the high-cost benchmark set at $80 per line, the model estimates that $5.9 billion per year is needed to support the provision of broadband to all high-cost service locations in the territories served by price cap LECs. To meet the $2.2 billion target, the model excludes the highest-cost census blocks from the CAF support calculation by setting the alternative technology threshold at $256 per month."

generally areas where RoR carriers have previously invested and where customers are currently being served with broadband. Thus, the risk for RoR areas includes a substantial risk of eliminating sufficient support for existing services.

These differing service delivery conditions and support objectives alone should preclude applying the price cap model to RoR areas. If the Commission chooses to use the price cap model to identify parts of RoR areas that will be supported only by the RAF, then major portions of the service areas of many RoR carriers could quite possibly become ineligible for more traditional forms of support, while federal USF support levels to those RoR carriers would be greatly reduced, even though those carriers today provide service in those high cost areas. As a result, universally available voice service (in addition to creation of ubiquitous broadband availability) will be endangered.

II. RoR-Served Areas Are Far More Rural Than Areas Served by Price Cap Companies, And A Model Will Likely Not Capture Those Differences or Will Produce Results Which Will Allow Price Cap Carriers to Avoid Serving Their Highest Cost Areas While Eliminating RoR Carriers Support Levels in Their Highest Cost Areas.

While certainly both price cap carriers and RoR carriers serve rural areas, NRIC believes the facts are clear that RoR companies generally have a far greater proportion of their customer locations in very rural (and thus high-cost) areas than do price cap providers. From a statistical standpoint and in light of desired policy outcomes, this high level of ruralness makes it difficult, if not impossible, to apply the same model to both carrier segments for purposes of determining universal service support.

A. Research demonstrates that areas served by RoR carriers are vastly more rural.

NRIC previously developed data that analyzed the differences across the country in the areas served by price cap and RoR carriers. NRIC member companies participated in a 2009

study conducted by the National Telecommunications Cooperative Association ("NTCA") which found that across the nation, approximately 42 percent of RoR carriers' lines were located in unincorporated rural areas rather than small towns, cities or otherwise incorporated areas. Meanwhile, for mid-size companies (predominately price cap-regulated) approximately 16 percent of their lines were in unincorporated areas. Bell Operating Companies, which at the time included landline operations of AT&T, Verizon, and Qwest, only had about 6 percent of their overall lines in unincorporated areas.[11] Thus, far greater portions of RoR carriers' customers are located in rural or very rural areas compared to other carriers.

NRIC has also found significant portions of their member companies' rural customers are located in very high-cost areas. That fact was borne out by NRIC's analysis of the original ABC Plan proposal. If the "alternative technology threshold" contained in that Plan were applied to all areas served by both RoR and price cap carriers, NRIC found that among NRIC member companies, more than 25 percent of their total served households – more than 15,000 households overall – would be located in these very high-cost areas identified under the ABC Plan.[12] As such, these households would be subject to this alternative technology threshold, and thus would not receive USF support under the ABC Plan. Given the far more populated areas that price cap carriers generally serve, NRIC is confident in concluding that a much smaller portion of households served by price cap carriers in Nebraska would be subject to the threshold. NRIC

[11] *See,* NTCA *ex parte,* filed October 22, 2009, *In the Matter of a National Broadband Plan for Our Future,* GN Docket No. 09-51; *In the Matter of the High-Cost Universal Service Support and Federal-State Joint Board on Universal Service,* WC Docket 05-337 and CC Docket 96-45; *In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92; and *IP Enabled Services,* WC Docket 04-36; *In the Matter of AT&T Petition for Immediate Commission Action to Reform its Universal Service Contribution Methodology,* WC Docket No. 06-122.

[12] *See,* NRIC Comments, pp. 50-51, filed August 24, 2011, WC Docket No. 10-90, GN Docket 09-51, WC Docket No. 07-135; WC Docket 05-337; CC Docket No. 01-92; CC Docket No. 96-45, WC Docket 03-109.

member companies have deployed broadband-capable facilities to a large number of these 15,000 households, so the elimination of USF that would occur under the ABC Plan would have a devastating effect. Further, it is reasonable to assume that the same disparity in impacts between price cap and RoR carriers would occur elsewhere across the country.

B. Averaging errors within any cost model creates more serious risks in rural areas.

Since areas served by RoR carriers are more diverse than those served in the aggregate by the larger price cap carriers, applying the same model to both carrier segments would be problematic. While the model on which the Commission is seeking comment to require broadband build-out in some price cap carriers' areas may reasonably estimate the overall cost to serve of price cap carriers, this would likely be in part because any model errors are more likely to cancel out when averaging costs over the larger price cap service territories. However, smaller carriers do not have the same scope or scale as price cap carriers, and averaging will not cancel out these errors. Therefore, RoR carriers, because of their generally smaller size, have more at risk from the inaccuracies that are unavoidable with any engineering cost model.

C. Network design assumptions for price cap carriers cannot be assumed to apply to RoR carriers.

The *Notice* asks for comments on appropriate model network design assumptions.[13] Based upon NRIC's assumption that an engineering cost model will not be extended to RoR carrier areas, NRIC is providing only limited comments at this time on the Bureau's approach to developing this model.

First, NRIC is concerned that relying on "assumptions" to develop a model of such importance will produce flawed results and have potentially devastating policy implications for

[13] *See, Notice* Section IV.A.

universal service. NRIC has consistently recommended in its work on RoR USF reforms that the Commission should collect and use actual data relating to actual networks, rather than making network design assumptions and applying those assumptions nationally as appears to be the Bureau's approach here.

NRIC has found based on analyzing data from real broadband construction projects that geographic, household density and other differences in regions across the country require varying network designs, particularly for rural projects.[14] Thus, NRIC is concerned about the Commission's apparent intention to use network design assumptions, not actual data, in developing critical aspects of this model.

As the *Notice* recognizes, consumer locations are critically important data.[15] No model can hope to be accurate without determining actual customer locations, particularly in very rural areas where customers are widely dispersed and settlement patterns vary from place to place. RoR companies' customers typically are located in very rural areas, and no model can reliably assume a given population dispersion within these areas. A model that also is based on both assumed customer locations and assumed network design would produce especially errant results for those companies.

Although NRIC assumes that application of the cost model will not be extended to RoR carrier areas, NRIC does note that inaccuracy in the cost model could produce unserved areas even within price cap areas. Under the Commission's *USF/ICC Transformation Order* if a price cap carrier refuses a state-level commitment to deploy broadband as required by the model,

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[14] *See, Predicting the Cost of Fiber to the Premise,* Nebraska Rural Independent Companies' Capital Expenditure Study, ex parte filed January 7, 2011. WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 05-337.

[15] *See Notice* ¶ 89.

support will be determined through competitive bidding.[16] Should the model based on network design assumptions produce cost-support results that do not reflect the real costs of building networks, there is a distinct possibility that no competitive bids will be submitted, particularly if model-based costs set an upper limit on bid prices.[17] In that case, a model with a flawed design will produce areas that will continue to be unserved and will render this entire exercise as futile for areas for which there is no bidder.

D. Assumptions in the CQBAT Model and some factors used to estimate cost are likely to be incorrect for RoR carriers.

The *Notice* seeks comment on a variety of cost modeling questions, including data sources, and it seeks comments on submitted models, including the ABC Plan's CQBAT Model.[18] NRIC has a general understanding of how these kinds of models are formulated, and notes that while model assumptions regarding cost factors and their relationship to cost may be appropriate in predicting costs of price cap companies, some of those variables are likely to be incorrect for RoR carriers.

One reason is based on economic theory. If one views cost per loop as a function of carrier size, as measured by loops per company, the relationship is roughly "L-shaped," with the costs of very small companies rising to very high levels, and costs declining generally as size increases. As one moves from moderately large to very large companies, cost per loop remains more or less constant or might even increase slightly. This cost curve has implications for cost modeling efforts.

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[16] *See Notice* ¶ 2.

[17] *See* Connect America Fund, WC Docket No. 10-90 et at., Notice of Inquiry, April 21, 2010, at ¶ 20. The Commission sought comment on whether a model would be an important tool even if the Commission used a reverse auction. A model would be important in establishing a "reserve price," i.e., a maximum subsidy level that participants would be allowed to place a bid.

[18] *Id.* ¶¶ 72-106,108.

Due to their larger size and more densely populated service areas, price cap carriers are likely to be operating at or near the constant returns-to-scale portion of the above cost curve. This implies that the functional relationship between the independent variables used to predict cost and the actual cost is likely to be linear.

On the other hand, most RoR carriers are small, and thus operate on the left side of the curve, where there are increasing returns-to-scale. As a matter of economics, this means that the relationships between cost and the independent variables that drive cost are not linear. For example, NRIC has previously found that the inverse of density is likely to predict cost best. A model that effectively applies a linear function of cost per loop over density would therefore be applying the incorrect functional form. The result would be incorrect estimates for RoR carriers and ultimately inadequate funding, and the effect would be most pronounced for companies with very low densities.

In a regression-based cost model (as distinguished from an engineering-based model like CQBAT), this same effect can produce one set of determinants that best predict costs for RoR carriers and a different set for price cap carriers. Some cost drivers such as area density are significant in very rural areas, as NRIC has found in its analysis,[19] and the density of areas served by RoR carriers varies widely. At the same time, given how many more of their customers are located in urban or relatively more densely populated areas, area density will certainly be much less significant or not significant at all in the case of price cap carriers' areas whose CAF support will be determined by a cost model.

[19]For example, NRIC's 2011 capital expenditure study of RoR companies' broadband projects found that area density explained 71 percent of the variation in cost per location and the equation produced a final-R-squared of 0.8666.

The Bureau should be mindful of these issues in using cost models for RoR areas, and thus should limit the cost model's potential use solely to areas served by price cap carriers.

III. The Risk Of Improperly Determining Network Costs And Model Inputs Is Less Critical To The Overall Welfare Of Price Cap Carriers Given Their Overall Size, Lack Of Historical Investment In The Highest-Cost Areas, And Their Other Business Priorities.

One outcome of the cost model and the CAF support mechanism is that at least some price cap carriers will be able to limit their exposure to mandated broadband services in highly rural areas, especially in light of their non-rural business priorities.[20] This objective is contrary to that of most RoR carriers, who strive to provide services to rural customers that are reasonably comparable to services provided in urban areas as required by law, especially in light of the significant proportion of RoR carriers' subscribers located in rural areas.

Price cap carriers lack the incentive to invest in the highest-cost areas because the revenues these carriers receive for providing service in rural, high-cost areas is insignificant relative to their total annual revenues.[21] The fact that over 80% of the more than 18 million Americans unserved by broadband live in price cap areas is evidence that price cap carriers' priorities are not in serving rural, high-cost areas.[22] This lack of desire to invest in rural, high-cost areas was recognized by the Commission in granting the transfer of 4.8 million rural access

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[20] AT&T earned $63.2 billion in wireless revenues for 2011 and Verizon earned $70.2 billion in wireless revenues in 2011. Source: Verizon and AT&T 2011 Form 10-K Annual Reports.

[21] The five largest price cap carriers, AT&T, Verizon, CenturyLink, Frontier, and Windstream reported a combined 129 million wireline subscribers in 2011. Source: AT&T, Verizon, CenturyLink, Frontier, and Windstream 2011 Form 10-K Annual Reports. AT&T, Verizon, CenturyLink, Frontier and Windstream reported combined corporate revenues in excess of $258.7 billion in 2011. Source: AT&T, Verizon, CenturyLink, Frontier, and Windstream 2011 Form 10-K Annual Reports.

[22] *See Notice* ¶ 1.

lines from Verizon to Frontier in 2010.[23] In its order granting the assignment of control, the Commission stated "this transaction holds promise for the future of broadband in certain areas of rural America."[24] The Commission concluded that service quality in the transaction market areas would most likely improve since Verizon had not focused investments in these areas and had shown no indication that it would change course in the future.[25]

Finally, NRIC submits that a carrier advocating to eliminate its carrier-of-last-resort obligations or to end universal service is a reasonably clear indication of its lack of intent to invest in its most rural service areas. The largest price cap carriers have done just that.[26]

Given the evidence that some price cap carriers have no intent to invest in rural, high-cost areas, NRIC is concerned that there will be no incentive for CQBAT sponsors to object to a model which results in maximizing the number of census blocks that meet the extremely high-cost census block threshold. NRIC urges the Bureau to review all cost models, including CQBAT, to assure that the number of census blocks falling into this classification is minimized

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[23] *See,* In the Matter of the Applications Filed by Frontier Communications Corporation, and Verizon Communications Inc. for Assignment or Transfer of Control, WC Docket No. 09-95, Memorandum and Opinion and Order, Released May 21, 2010.

[24] *Id.* ¶ 2. The Commission found that of the 4.8 million access lines Frontier sought to acquire, only approximately 62 percent were capable of providing broadband at any speed, and only approximately 50 percent were capable speeds of at least 3Mbps.

[25] *Id.* ¶ 56.

[26] In four states, Texas, North Carolina, Florida, and Wisconsin, carriers have persuaded state legislators to remove carrier-of-last-resort obligations and this is being considered in six other state legislatures. See http://www.rttnews.com/1864814/battle-lines-drawn-ver-landline-phone-service. See http://www.rttnews.com/1864814/battle-lines-drawn-ver-landline-phone-service and http://www.publicnewsservice.org; AT&T Knows Best: Kentucky Senator Introduces Company-Written Bill That Ends Universal Service at http://stopthecap.com/2012/03/15/att; AT&T, Mississippi legislators fight over deregulation at http://www.csmonitor.com February 28, 2012; Rural Groups Oppose Senate Bill 271, A Bill That Deregulates Basic Telephone service in Ohio at http://www.ruralassembly.org/news/broadband-advocates-oppose-ohio-landline-bill

in order to maximize the number of consumers that live and work in these areas are able to obtain world-class broadband.

IV. The Five-Year Commitment That The Commission Is Proposing For Price Cap Model Recipients Is Much Shorter Than The Accounting And Economic Lives Of Most Broadband Network Investment.

Given the mismatch between the five-year commitment that the Commission is proposing for price cap model recipients and the accounting and economic lives of broadband network investment, NRIC urges the Bureau to assure that this mismatch will not result in the inclusion of un-depreciated plant (terminal value) in the cost-per-line calculation. Inclusion of un-depreciated plant will result in an artificially inflated cost-per-line thereby increasing the number of census blocks categorized as extremely high cost.

The *Notice* recognizes that some network assets are long-lived, with accounting lifetimes of 20 or more years, and economic lifetimes that are even longer.[27] Further, these long-lived assets may represent a significant fraction of the total cost of deployment.[28] Since the *USF/ICC Transformation Order* provides price cap carriers accepting a statewide level commitment with funding for five years, the manner in which the model reflects the value of longer-lived assets through the calculation of terminal value is likely to be a large driver of support amounts. The *Notice* recognizes that a green-field FTTP model would also make annual cost and support levels highly dependent on the terminal value, because the explicit modeling period is much shorter than the lifetime of many assets in the model.[29] If the terminal value is calculated and is spread over the modeling period, which is much shorter than the economic life of the assets, the model

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[27] *See Notice* ¶ 23.

[28] *Id.*

[29] *Id.* ¶ 32.

will exaggerate the annual network cost, resulting in an inflated cost-per-line and an increase in the number of census blocks subject to the "extremely high-cost" benchmark.[30] The number of census blocks price cap carriers would be obligated to serve would be reduced as a result. Should areas served by RoR carriers also be subjected to the 'extremely high-cost benchmark, inflated cost-per-line calculations will cause even more census blocks in these carriers' service areas to exceed the benchmark. NRIC therefore urges the Bureau not to include terminal values in calculating the cost-per-line.

V. The Model Should Consider The Total Costs Of The Entire Service Area Or Study Area Over Which A Carrier Operates And Allocate The Shared Cost Over The Entire Service Area.

The *Notice* asks whether the model should estimate the total costs of serving the entire service area (and allocate shared costs to supported areas) or only the stand-alone costs of areas eligible for support. The Commission will use the results to determine which census blocks are eligible for support (cannot be supported by reasonable end user rates alone) and to identify those census blocks that should receive funding set aside for remote and extremely high-cost areas.[31] The allocation of shared costs could have a significant effect on the cost-per-line calculation, including the number of census blocks that would be identified as extremely high-cost areas.

In the *Notice*, the Commission recognizes that most network costs are shared costs and the method used to attribute the cost of shared plant to individual end users or census blocks will

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[30] For example, if a terminal value is calculated at the end of the five-year commitment period and if the terminal value is spread over the five-year commitment window, the cost per line calculation will be substantially higher than if it were calculated over the normal accounting or economic life with a resulting terminal value of zero.

[31] *Id.* ¶ 40.

affect the relative costs of serving different areas.[32] The Bureau proposes to use a method in which the model would calculate the costs of a network that serves the entire service territory and then allocate the shared costs between eligible and ineligible areas. The Commission appropriately recognizes therefore that the specific method for determining the share of costs for network facilities that serve both eligible and ineligible areas is essential to this approach. NRIC agrees with the Bureau's approach to seek to determine the costs of the entire network. However, NRIC urges caution in assigning shared cost between eligible and ineligible areas in determining support amounts.

NRIC believes the model must guard against two countervailing forces, each providing negative outcomes. If shared costs are attributable only to those subscribers in eligible areas, per line *cost* amounts in the eligible areas will be artificially inflated, causing more census blocks to be calculated as extremely high-cost census blocks. If the shared costs are under-allocated to the eligible areas, *support* will not be sufficient to induce carriers to provide service in those census blocks. Although no support will be provided to those areas considered ineligible for support, the Bureau must be cognizant of the fact that most, if not all, of the shared costs will still be incurred in providing service to those households in the eligible area. The Bureau must therefore separate its calculation of CAF support amounts from its calculation of cost-per-line. The Bureau could allow for recovery of the shared cost that is incurred in its calculation of CAF Phase II support while simultaneously calculating cost-per-line amounts that appropriately allocate shared costs between eligible and ineligible areas, thus preventing more census blocks from being unjustly calculated as extremely high cost.

[32] *Id.* ¶ 41.

VI. Conclusion

For the foregoing reasons, NRIC respectfully submits that the use of a forward-looking cost model that is designed to determine CAF Phase II support for areas served by price cap carriers must not be applied to RoR carriers particularly as it relates to identifying areas classified as "extremely high cost" and subject to the Remote Areas Fund.

Dated: July 9, 2012.

Respectfully submitted,

Arlington Telephone Company, The Blair Telephone Company, Cambridge Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hartington Telecommunications Co., Inc., Hershey Cooperative Telephone Co., K. & M. Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company, Rock County Telephone Company, Stanton Telecom, Inc., and Three River Telco

The Nebraska Rural Independent Companies

By: 

Paul M. Schudel, No. 13723
pschudel@woodsaitken.com
James A. Overcash, No. 18627
jovercash@woodsaitken.com
WOODS & AITKEN LLP
301 South 13th Street, Suite 500
Lincoln, Nebraska 68508
(402) 437-8500